

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of

Initiation of Cost Review Proceeding)	
for Residential and Single-Line Business)	CC Dockets Nos. 96-262, 94-1
Subscriber Line Charge (SLC) Caps)	

**REPLY COMMENTS OF AD HOC
TELECOMMUNICATIONS USERS COMMITTEE**

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The Ad Hoc Telecommunications Users Committee (the "Ad Hoc Committee") submits these Reply Comments in response to the comments filed pursuant to the September 17, 2001 Public Notice in the above-referenced docket.¹ For the reasons set forth below, the Commission should reject the cost studies submitted by the price cap local exchange carriers ("LECs"), and, based on other cost studies discussed herein, raise the cap on the residential and single-line business subscriber line charge ("SLC") to \$6.50.

INTRODUCTION AND SUMMARY

In its initial Comments, the Ad Hoc Committee urged the Commission to disregard the price cap LECs' forward-looking cost studies as a reliable means of assessing whether to raise the SLC cap on residential and single-line business customers. Instead, Ad Hoc urged the Commission to make that assessment based on other data, such as the ARMIS data it relied on in the initial *CALLS*

¹ *Initiation of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps*, CC Dkts. Nos. 92-262, 94-1, DA 01-2163 (released September 17, 2001) (the "Public Notice").

Order,² the forward-looking cost Synthesis Model used to determine the need for Universal Service Fund support, or the Total Element Long-Run Incremental Cost (“TELRIC”) studies adopted in numerous state Unbundled Network Element (“UNE”) cost proceedings. Data representing each of these alternative methodologies was summarized in Tables 2, 3, and 4, respectively, in the Ad Hoc Committee’s initial Comments.

Other commenting parties agreed that the studies submitted by the price cap LECs were of no use to the Commission in this proceeding, and each identified at least one of these alternative analyses as a better benchmark upon which the Commission should rely. Thus, the data provided in Tables 2, 3, and 4³ in Ad Hoc’s initial Comments provides a sound basis for the Commission to move forward with its previous decision to raise the residential and single-line business SLC cap, as discussed in the *CALLS Order*.

Because of the rate element relationships created by the Commission’s rules, the Commission’s conclusions regarding the price cap LECs’ cost studies produce inevitable consequences for the SLCs and PICCs:

(1) To the extent the Commission raises the residential and single-line business SLC cap, it must concurrently and correspondingly lower the multiline business presubscribed interexchange carrier charge (“PICC”).

(2) To the extent the Commission relies upon the results of a particular forward-looking study to justify *either* an increase in the residential and single-line

² *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, Sixth Report and Order in CC Docket No. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962 (2000) (“*CALLS Order*”).

³ As discussed in Section III.B., below, Ad Hoc has attached a revised Table 4 to these Reply Comments.

business SLC cap or maintenance of that cap at existing levels, it must rely on the same forward-looking study in setting other common line charges, namely the multiline business SLC and multiline business PICC.

(3) If the Commission determines that an increase in the SLC cap is not justified by forward-looking cost results, it must re-evaluate the need for the multiline business PICC as a subsidy mechanism for residential and single-line business service.

DISCUSSION

I. COMMENTERS AGREE THAT THE COMMISSION SHOULD DISREGARD THE PRICE CAP LECs' FORWARD-LOOKING COST STUDIES.

In the *CALLS Order*,⁴ the Commission approved raising the cap on the residential and single-line business SLC to \$6.00 on July 1, 2002, and to \$6.50 on July 1, 2003. Any increases above the \$5.00 level, however, would require prior verification that the increases were “appropriate and reflect[ed] higher costs where they are to be applied.”⁵ On November 16, 2001, in response to the Public Notice, the seven price cap LECs (BellSouth, Cincinnati Bell, Citizens, Qwest, SBC, Sprint, Verizon) filed forward-looking cost information for the provision of retail voice grade access to the public switched network.

Not one of these studies contained enough detail to justify Commission reliance on it in evaluating the residential and single-line business SLC caps. Indeed, the carriers all submitted the *results* of “forward-looking” cost studies, *not*

⁴ *Supra*, note 2.

⁵ *Id.* at ¶¶ 70, 83.

the studies themselves.⁶ The National Association of State Utility Consumer Advocates (“NASUCA”) echoed this assessment: “Rather than providing accurate forward-looking cost estimates and detailed explanations of how these figures were calculated, [the LECs’] cost submissions are, at best, nothing more than a laundry list of unsupported figures.”⁷ Indeed, the LECs provided no backup documentation to demonstrate the validity of their cost studies.

These flaws are fatal. WorldCom has reminded the Commission that it “has consistently declined to give any weight to cost model outputs unless the models used to generate those outputs are available for review by the Commission and interested parties.”⁸ Similarly, NASUCA cautioned that

allow[ing] these companies to avoid scrutiny by deliberately failing to supply interested parties with any useful information ... would run counter to previous decisions of the FCC and various state commissions and by itself destroy the credibility of this proceeding. . . . The ILECs’ conscious decisions to withhold cost models and inputs makes it impossible for parties to validate the accuracy of these models and because of this denial of due process it would be improper for the FCC to conclude that these cost estimates accurately reflect the operations of an efficient firm.⁹

⁶ See Comments of Ad Hoc Telecommunications Users Committee in CC Dkts. Nos. 96-262, 94-1 (filed January 24, 2002) (“Ad Hoc Comments”) at 3.

⁷ Comments of National Association of State Utility Consumer Advocates in CC Dkts. Nos. 96-262, 94-1 (filed January 24, 2002) (“NASUCA Comments”) at 17. After examining the LECs’ studies, NASUCA concluded that they are not forward-looking at all, but are based on an embedded analysis, which runs counter to the Commission’s request in the *CALLS Order*, *supra*, note 2, at ¶ 83. NASUCA Comments at 18-19.

⁸ Comments of WorldCom, Inc. in CC Dkts. Nos. 96-262, 94-1 (filed January 24, 2002) (“WorldCom Comments”) at 7-8 (referencing several Commission proceedings in which LECs were required to disclose all models they used in calculating costs).

⁹ NASUCA Comments at 20.

Confidentiality is no excuse for not providing the model inputs;¹⁰ regulated utilities routinely provide proprietary information in these types of proceedings, subject to appropriate protective agreements.

In short, there is no justification for proceeding on the basis of the LECs' unsupported cost studies when the Commission assesses the appropriateness of raising the cap on the residential and single-line business SLC. Instead, the Commission should rely on other cost study results that are available to it and discussed below.

II. THE COMMISSION IS NOT REQUIRED TO RELY SOLELY ON FORWARD-LOOKING STUDIES IN CONSIDERING AN INCREASE IN THE SLC CAP.

As the Ad Hoc Committee pointed out in its initial Comments,¹¹ nothing in the *CALLS Order* requires the Commission to rely exclusively on forward-looking studies in analyzing a possible increase in the residential and single-line business SLC cap. Indeed, WorldCom has noted that “the Commission declined to articulate the standard that it would employ” to evaluate forward-looking costs: although it “promised to examine the ILECs’ forward-looking cost information, the Commission did not adopt a forward-looking cost standard or assign any particular weight to the ILECs’ cost submissions.”¹²

As Ad Hoc stated in its initial comments,¹³ the reasons for raising the SLC cap above \$5 for residential and single-line business lines are still valid,

¹⁰ See SBC Telecommunications, Inc., SBC Subscriber Line Charge Cost Submission, filed in CC Docket Nos. 96-262, 94-1 (November 16, 2001) (“SBC Cost Submission”) at 4.

¹¹ Ad Hoc Comments at 8-9.

¹² WorldCom Comments at 3 (footnotes omitted).

¹³ Ad Hoc Comments at 9.

irrespective of the outcome of the forward-looking studies provided by the ILECs. As WorldCom observed, “[t]he scheduled increase in the residential SLC cap is both appropriate and necessary in order to achieve the *CALLS Order*’s goal of eliminating the CCL and phasing out the multiline business PICC.”¹⁴ Moreover, the ARMIS data provided by Ad Hoc amply demonstrates that, in the majority of states, embedded costs justify the SLC cap increases contemplated by the Commission.¹⁵ Accordingly, the Commission would be fully justified in proceeding with the *CALLS Plan* to raise the SLC cap, regardless of the results (or reliability) of the forward-looking cost studies. Concurrent with the increase in the residential and single-line business SLC cap, the Commission should also decrease the multiline business PICC, as outlined in the *CALLS Order*.¹⁶

III. SLC INCREASES ARE JUSTIFIED BY FORWARD-LOOKING COST STUDIES OTHER THAN THE LECS’ UNSUPPORTED COST STUDIES.

As the Ad Hoc Committee noted in its initial Comments, both the Synthesis Model’s results and state loop and port UNE rates (plus estimated retailing costs) are the products of well-documented models, inputs, and assumptions, and therefore provide better estimates of forward-looking costs than those submitted by the price cap LECs.¹⁷ NASUCA and WorldCom each have embraced the Synthesis Model and state-approved UNE rates as better

¹⁴ WorldCom Comments at 4.

¹⁵ Ad Hoc Comments at 10-11.

¹⁶ *CALLS Order*, *supra*, note 2, at ¶ 72 (citing Modified Proposal at §§ 2.1.4.1, 2.1.6).

¹⁷ Ad Hoc Comments at 11-17.

barometers of the forward-looking cost of LEC access lines.¹⁸ Both sets of data, which Ad Hoc summarized in Tables 3 and 4 of its initial Comments, support increasing the residential and single-line business SLC cap above the current \$5 level.¹⁹

A. The Synthesis Model

WorldCom has joined Ad Hoc in stating that the Synthesis Model is a more reliable measure of forward-looking cost because the Commission, Joint Board, and interested third parties have all thoroughly reviewed the model and its attendant inputs and outputs.²⁰ Unlike the inputs behind the LECs' cost submissions, the inputs for the Synthesis Model -- such as fill factors, structure sharing, structure cost, and cable cost input values -- have been publicly aired and fully debated by interested parties and economic experts, after which forward-looking standards have been adopted. As NASUCA has described at length, there is no way of knowing how the values the LECs have applied compare to the appropriate forward-looking standards established in other proceedings.²¹

NASUCA has introduced a version of the Synthesis Model that it asserts will calculate more appropriate forward-looking costs for access lines. In its initial Comments, Ad Hoc noted that the Synthesis Model's results may improperly assign overhead costs and that the Commission has the authority to make

¹⁸ WorldCom Comments at 9; NASUCA Comments at 23-36.

¹⁹ Ad Hoc Comments at Tables 3 and 4; Table 4 – Revised, Appendix 1 hereto.

²⁰ WorldCom Comments at 9.

²¹ NASUCA Comments at 27-36.

adjustments as it sees fit.²² NASUCA's proposal is one such possible modification, but it suffers from the same inadequacies as the incumbent LECs' studies, in that it only describes the process, not the details behind, its calculations reassigning common costs.²³ Ad Hoc is thus unable to verify the accuracy of NASUCA's adjusted results.

Furthermore, although NASUCA allocated common costs "among the loop, switch and transport baskets on the basis of relative investment in these functions,"²⁴ it has neither justified this decision nor provided any evidence demonstrating that such an allocation is appropriate. In short, while NASUCA has embraced the general concept of the forward-looking Synthesis Model, its own version of that model (and consequently its outputs) are unverifiable for the same reasons that the price cap LECs' filings are unreliable.

Thus, the Commission should disregard the results of the "NASUCA Model" and instead rely on the results of the Synthesis Model as provided in Table 3 of Ad Hoc's initial Comments. Those results show that 46 states have separated forward-looking costs exceeding \$5.00 per line, thereby corroborating the need to raise the SLC cap for residential and single-line business lines.²⁵

B. TELRIC Studies Adopted by State PUCs

NASUCA and WorldCom have both agreed that UNE prices available at the state level provide a better estimate of forward-looking costs than the price

²² Ad Hoc Comments at 13.

²³ NASUCA Comments at 39-41.

²⁴ *Id.* at 41.

²⁵ Ad Hoc Comments at 13-15.

cap LECs' cost submissions.²⁶ As discussed above, the most fundamental flaw with the price cap LECs' studies is the absence of information regarding their models, inputs, and assumptions. In contrast, "[t]he UNE loop and port rates established by the states provide reasonable forward-looking estimates because they are the result of thorough proceedings governed by the FCC's rules," as NASUCA noted.²⁷

Despite the accuracy of that observation, NASUCA provided a flawed assessment of the interstate portion of the access line cost in Table 1 and Appendix C of its initial Comments (referred to in Table 1 as "SLC based on TELRIC Costs" and in Appendix C as "Average Per-Line Interstate UNE Cost"). The problem is that NASUCA has failed to adjust its figures to reflect the significant retailing costs that should be considered when calculating the forward-looking cost of a retail access line.

As the Ad Hoc Committee noted in its initial Comments, the Synthesis Model approved by the Commission identifies unseparated "Service Expense/Customer Operations" retail costs of \$3.62 and "Marketing" costs of \$0.09.²⁸ NASUCA appears to have included the \$0.09 (unseparated) marketing figure as found in the Synthesis Model,²⁹ but it has neglected to include the \$3.62 (unseparated) retailing figure identified by Ad Hoc.³⁰ Thus, each of the statewide

²⁶ WorldCom Comments at 9; NASUCA Comments at 23-24.

²⁷ NASUCA Comments at 23.

²⁸ See *Federal-State Joint Board on Universal Service*, 10th Report and Order, CC Dkts. Nos. 96-45, 97-160, 14 FCC Rcd 20156 (1999) ("*Inputs Order*") at 20305, 20321, 20423.

²⁹ NASUCA Comments at 34 & n. 47. NASUCA claims that this \$0.09 marketing figure is relevant, but the TELRIC costs appearing in Table 1 and Appendix C are reported in the aggregate, so it is not entirely clear what cost figures comprise these "final" numbers.

³⁰ Ad Hoc Comments at 13, n. 24; 15-16.

figures representing the TELRIC costs for the loop and port appearing in NASUCA's Table 1 and Appendix C are understated by at least the interstate portion of the Commission-approved retailing costs for an access line, which is 25% of \$3.62, or \$0.91. Therefore, NASUCA's conclusion that more than half of the 42 study areas have monthly interstate access line costs below \$5 is incorrect.

Table 4 in Ad Hoc's initial Comments provided a calculation of forward-looking access line costs using state PUC-adopted TELRIC rates for the loop and port, as well as an appropriate allocation of retailing and marketing costs. The source used to compile the data in that table was subsequently updated.³¹ Accordingly, a revised version of Table 4 is attached hereto for the Commission's consideration. Even with these updated figures, the number of states whose TELRIC-based interstate access line cost exceeded \$5.00 increased from 29 to 34, and an equivalent 14 states' costs were above \$6.00.

As the Ad Hoc Committee stated in its Initial Comments, the results of the forward-looking Synthesis Model and state PUC-approved UNE cost studies demonstrate that increasing the SLC cap for residential and single-line business services to \$6.00 on July 1, 2002 and \$6.50 on July 1, 2003 is warranted.³² Consistent with the *CALLS Order*, any increase in this cap results in an offsetting

³¹ "A Survey of Unbundled Network Element Prices In The United States," Billy Jack Gregg, Director, Consumer Advocate Division, Public Service Commission of West Virginia, updated January 1, 2002, available at <http://www.cad.state.wv.us/Intro%20to%20Matrix%2002.htm>. Many of the updates contained in the UNE rate survey reflect statewide average loop and port rates that were not provided in the earlier survey.

³² See Ad Hoc Comments at 11-17.

decrease to the multiline business PICC,³³ which, as GSA has noted, currently “bear no relationship to cost.”³⁴

IV. THE COMMISSION SHOULD BE CONSISTENT IN USING FORWARD-LOOKING COST STUDIES WHEN SETTING COMMON LINE CHARGES.

It is critically important for the Commission to maintain consistency in setting common line charges for residence/single-line business and multiline business users.³⁵ If the Commission concludes in this proceeding that it is appropriate to rely on forward-looking cost studies to set the SLC cap for residential and single-line business lines, it should also use the same studies to set the SLC cap and PICC for multiline business lines.

Regardless of which forward-looking study the Commission ultimately relies on, and regardless of whether the SLC cap is increased or held at the same level, consistency is essential. As Ad Hoc noted in its initial Comments, “[f]ailure to utilize consistent standards when calculating the costs for recovery will eliminate the possibility that these common line costs will be recovered accurately, and will eradicate the progress the Commission has made in identifying and eliminating subsidies within these rates.”³⁶ And preservation of such implicit subsidies would be inconsistent with the Communications Act.³⁷

³³ *CALLS Order*, *supra*, note 2, ¶ 72 (citing the Modified Proposal at §§ 2.1.4.1, 2.1.6).

³⁴ GSA Comments at 3.

³⁵ Ad Hoc Comments at 18-19.

³⁶ *Id.* at 18.

³⁷ *Comsat Corp. v. FCC*, 250 F.3d 931 (5th Cir. 2001).

V. IF COSTS DO NOT WARRANT AN INCREASE IN THE RESIDENTIAL AND SINGLE-LINE BUSINESS SLC CAP, THEY DO NOT WARRANT CONTINUED SUBSIDIZATION BY THE MULTILINE BUSINESS PICC.

Putting aside the results of the LECs' inadequate studies, if the Commission determines that forward-looking costs do not support an increase in the residential and single-line business SLC cap, it must act on the inescapable corollary that those access lines no longer need to be subsidized by above-cost common line charges assessed on multiline business users.³⁸

As Ad Hoc discussed in its initial Comments, the *CALLS Order* requires that increases in the residential and single-line business SLC cap be accompanied by decreases in the multiline business PICC.³⁹ If the Commission changes its methodology for setting the SLC cap for residential and single-line business lines and this results in a determination that the current SLC cap is sufficient to recover the interstate portion of the cost of these access lines, then no further subsidy mechanism from multiline business users is required, and multiline business PICCs can no longer be justified.⁴⁰

CONCLUSION

The Commission should reject the forward-looking cost studies submitted by the price cap LECs. BellSouth has stated that "these costs are not substitutes for nor should they be considered as appropriate for Unbundled Network Element

³⁸ NASUCA agrees, stating that the results of the "NASUCA Model" (which Ad Hoc does not support) "demonstrate that residential and single-line business customers are contributing to the support of the network, and do not receive a subsidy." NASUCA Comments at 44.

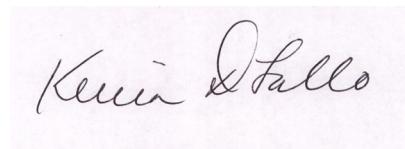
³⁹ Ad Hoc Comments at 20.

⁴⁰ And, as indicated earlier, the multiline business SLC cap would need to be reassessed using the same forward-looking studies relied upon in setting the residential and single-line business SLC cap.

costs, universal service costs, or for any other purpose.”⁴¹ Similarly, they are not suitable for calculating the interstate portion of the cost of residential and single-line business access lines. The Commission has several alternative sources of information on which it can more effectively assess the appropriate level of the residential and single-line business SLC cap. It should consider these sources and find not only that the cap should be increased as planned in the *CALLS Order*, but also that re-evaluation of the PICC is appropriate.

Respectfully submitted,

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⁴¹ BellSouth Telecommunications, Inc., BellSouth Forward-Looking Cost Information, filed in CC Docket Nos. 96-262, 94-1(November 16, 2001) (“BellSouth Cost Submission”) at 1.

Appendix 1

Table 4 - Revised						
Forward-Looking Access Line Costs Calculated Using Statewide Average TELRIC UNE Rates						
RBOC	State	Loop Cost	Monthly Port Cost	Retail/Mktg estimate	Total Monthly Forward-Looking Cost	25% Interstate Portion
Bell South						
	AL	\$19.04	\$2.07	\$3.71	\$24.82	\$6.21
	FL	\$15.81	\$1.62	\$3.71	\$21.14	\$5.29
	GA	\$16.51	\$1.85	\$3.71	\$22.07	\$5.52
	KY	\$20.00	\$2.61	\$3.71	\$26.32	\$6.58
	LA	\$17.31	\$2.55	\$3.71	\$23.57	\$5.89
	MS	\$21.26	\$2.11	\$3.71	\$27.08	\$6.77
	NC	\$15.88	\$2.19	\$3.71	\$21.78	\$5.45
	SC	\$17.60	\$1.65	\$3.71	\$22.96	\$5.74
	TN	\$14.92	\$1.89	\$3.71	\$20.52	\$5.13
Verizon (Bell Atlantic)						
	DC	\$10.81	\$1.55	\$3.71	\$16.07	\$4.02
	DE	\$12.05	\$2.23	\$3.71	\$17.99	\$4.50
	MA	\$14.98	\$2.00	\$3.71	\$20.69	\$5.17
	MD	\$14.50	\$1.90	\$3.71	\$20.11	\$5.03
	ME	\$17.53	\$2.04	\$3.71	\$23.28	\$5.82
	NH	\$17.99	\$2.22	\$3.71	\$23.92	\$5.98
	NJ	\$9.52	\$0.73	\$3.71	\$13.96	\$3.49
	NY	\$14.81	\$2.50	\$3.71	\$21.02	\$5.26
	PA	\$13.81	\$2.67	\$3.71	\$20.19	\$5.05
	RI	\$13.93	\$4.15	\$3.71	\$21.79	\$5.45
	VA	\$13.60	\$1.30	\$3.71	\$18.61	\$4.65
	VT	\$14.41	\$1.03	\$3.71	\$19.15	\$4.79
	WV	\$24.58	\$1.60	\$3.71	\$29.89	\$7.47
SBC						
	Ameritech - IL	\$9.81	\$5.01	\$3.71	\$18.53	\$4.63
	Ameritech - IN	\$8.20	\$5.34	\$3.71	\$17.25	\$4.31
	Ameritech - MI	\$10.15	\$2.53	\$3.71	\$16.39	\$4.10
	Ameritech - OH	\$7.01	\$4.63	\$3.71	\$15.35	\$3.84
	Ameritech - WI	\$10.90	\$3.71	\$3.71	\$18.32	\$4.58
	SWBT - AR	\$13.09	\$1.61	\$3.71	\$18.41	\$4.60
	SWBT - KS	\$14.04	\$1.61	\$3.71	\$19.36	\$4.84
	SWBT - MO	\$15.19	\$2.11	\$3.71	\$21.01	\$5.25
	SWBT - OK	\$14.84	\$2.25	\$3.71	\$20.80	\$5.20
	SWBT - TX	\$14.15	\$2.90	\$3.71	\$20.76	\$5.19
	Pacific Bell - CA	\$11.70	\$2.88	\$3.71	\$18.29	\$4.57
	Nevada Bell - NV	\$19.83	\$1.63	\$3.71	\$25.17	\$6.29
	SNET - CT	\$12.49	\$3.31	\$3.71	\$19.51	\$4.88

Qwest						
	AZ	\$21.98	\$1.61	\$3.71	\$27.30	\$6.83
	CO	\$20.65	\$1.15	\$3.71	\$25.51	\$6.38
	IA	\$20.15	\$1.15	\$3.71	\$25.01	\$6.25
	ID	\$25.52	\$1.34	\$3.71	\$30.57	\$7.64
	MN	\$17.87	\$1.08	\$3.71	\$22.66	\$5.67
	MT	\$27.41	\$1.45	\$3.71	\$32.57	\$8.14
	ND	\$19.75	\$1.27	\$3.71	\$24.73	\$6.18
	NE	\$15.79	\$1.37	\$3.71	\$20.87	\$5.22
	NM	\$20.50	\$1.38	\$3.71	\$25.59	\$6.40
	OR	\$15.00	\$1.26	\$3.71	\$19.97	\$4.99
	SD	\$21.09	\$1.84	\$3.71	\$26.64	\$6.66
	UT	\$16.46	\$0.94	\$3.71	\$21.11	\$5.28
	WA	\$18.16	\$1.34	\$3.71	\$23.21	\$5.80
	WY	\$25.65	\$1.53	\$3.71	\$30.89	\$7.72

Sources:

"A Survey of Unbundled Network Element Prices In The United States," Billy Jack Gregg, Director, Consumer Advocate Division, Public Service Commission of West Virginia, updated January 1, 2002.

Federal-State Joint Board on Universal Service, CC Dockets 96-45, 97-160, Tenth Report and Order, adopted October 21, 1999, released November 2, 1999, Appendix D, page D-5.

Certificate of Service

I, Michaeleen Williams, hereby certify that true and correct copies of the preceding Reply Comments of Ad Hoc Telecommunications Users Committee was served this 14th day of February, 2002 via the FCC's ECFS system, and by first class mail upon the following:

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